

**BEFORE THE POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001**

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**Annual Compliance Report, 2011**

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**Docket No. ACR2011**

**JOINT COMMENTS OF THE DIRECT MARKETING ASSOCIATION, INC.,  
THE MAJOR MAILERS ASSOCIATION, THE NATIONAL ASSOCIATION  
OF PRESORT MAILERS, THE NATIONAL POSTAL POLICY COUNCIL,  
AND THE PARCEL SHIPPERS ASSOCIATION  
(February 3, 2012)**

In response to the United States Postal Service's October 18, 2011 Notice of Market-Dominant Price Adjustment (Notice), the Direct Marketing Association Inc., the Mailing and Fulfillment Service Association, the Major Mailers Association, the National Association of Presort Mailers, the National Postal Policy Council, and the Parcel Shippers Association (Joint Comments) filed joint comments to raise concerns regarding a number of the proposed price adjustments which could undercut the efficiency and long-term sustainability of the postal system. The Joint Comments stated,

A shift in focus from price signals designed to drive the lowest combined costs to prices geared to promote the use of excess capacity is problematic. First, it is a substantial and inappropriate departure from the long-standing pricing policy that has resulted in enhanced economic efficiency for both the mailing industry and the Postal Service. Second, it represents an abuse of the Postal Service's monopoly position. It is a form of exclusionary pricing – discouraging the most efficient providers from performing upstream services (e.g., sortation and transportation) at lower cost. Prices that encourage work to be performed by the least cost provider (i.e., whether that provider be a mailer, mail service provider, or the Postal Service) are efficient and allow the Postal Service to size its infrastructure appropriately. In contrast, inefficient prices designed to make work for the Postal Service will result in too large a network, higher costs to mailers, and accelerated volume declines. They will exacerbate the financial crisis facing the Postal Service mailing industry.

Joint Comments at 3.

By Order No. 987, dated November 22, 2011, the Commission approved the proposed price adjustments for market dominant products. However, the Commission's discussion of

First-Class Mail worksharing issues cited to the Joint Comments and stated that the “Commission shares the concern that the Postal Service may not have fully considered the price signals implied by pricing to excess capacity. Such actions may have an adverse effect on the efficient operations of the Postal Service.” Order No. 987 at 12-13. The Commission further stated that “[m]atters related to this pricing issue may be further reviewed during the ACD process.” *Id.*

The above-captioned parties urge the Commission to address this issue in its forthcoming Annual Compliance Determination. In the most recent price adjustment, the issue affected First-Class Mail worksharing. In the price adjustment the year before the Postal Service pursued a similar approach with respect to Standard Mail machinable parcels. This is a disturbing trend. A shift in prices to discourage worksharing and increase work performed by the Postal Service, could befall virtually all mail classes, products and rate categories.

That the Postal Service would attempt to capture more work by reducing workshare discounts in the face of volume declines is predictable, even if it is self-defeating. *See* Comments of the Direct Marketing Association (Feb. 3, 2012) at 3-4 (demonstrating that the Postal Service could maximize the contribution from First-Class Mail by lowering prices on Presort Letters). But the predictability of this shift underscores the importance of the Commission’s role in ensuring that pricing signals enhance efficiency.

The effects on productive efficiency generally and on postal operations specifically are only one dimension of this issue. Setting discounts at less than costs avoided raises serious competition policy concerns because doing so is inherently exclusionary. *See* Comments of John Panzar (Feb. 3, 2012) at 5. Under the PAEA, it is the Commission’s responsibility to prevent exclusionary pricing and to ensure that postal pricing policies

promote economic efficiency and the long-term sustainability of the postal system. *See id.* at 14.

We ask the Commission, in this proceeding, to instruct the Postal Service to construct price signals that recognize the importance of efficiency by promoting worksharing, as opposed to making use of excess capacity. This is necessary to create a more equitable, nonexclusionary price schedule that fully reflects the value of worksharing.

Respectfully submitted,

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